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ABSTRACT

This module on owning and operating a farm equipment repair business is one of 36 in a series on entrepreneurship. The introduction tells the student what topics will be covered and suggests other modules to read in related occupations. Each unit includes student goals, a case study, and a discussion of the unit subject matter. Learning activities, discussion questions, and a group activity. Units (and subject matter) in this module are planning your business (personal qualities; service, customers, and competition; special services; legal requirements) choosing a location (picking an area; picking a spot); getting money to start (description of your business; statement of financial need); being in charge (dividing the work); organizing the work (doing the work; checking the work); setting prices (parts, labor, profit); advertising and selling (designing an ad, promotion); keeping financial records (cash sales, credit sales, daily cash sheet); and keeping your business successful (profit and loss statement; profit ratio and expense ratio; increasing net profits). A summary and quiz complete the document. (A teacher's guide is available for this module.) (CT)

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GETTING DOWN TO BUSINESS:

Farm Equipment Repair

Susan McBain

May 1981

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INTRODUCTION

How are you going to use your job skills after you finish school?

Have you ever thought about starting your own farm equipment repair business?

This module describes people who have started and managed farm equipment repair businesses. It gives you an idea of what they do and some of the special skills they need.

You will read about

- planning a farm equipment repair business
- choosing a location
- getting money to start
- being in charge
- organizing the work
- setting prices
- advertising and selling
- keeping financial records
- keeping your business successful

You will also have a chance to practice some of the things that farm equipment repair business owners do.

Then you will have a better idea of whether a career as a farm equipment repair business owner is for you.

Before you study this module, you might want to study Module 1, Getting Down to Business: What's It All About?

When you finish this module, you might want to read

- Module 3, Getting Down to Business: Tree Service;
- Module 5, Getting Down to Business: Fertilizer and Pesticide Service;
- Module 6, Getting Down to Business: Dairy Farming.

These modules are related to other businesses in agriculture.

UNIT 1

Planning a Farm Equipment Repair Business

Goal: To help you plan a farm equipment repair business.

Objective 1: List three or more personal qualities an owner of this business might have.

Objective 2: Describe the services, customers, and competition of this business.

Objective 3: List ways to help your business "stand out" from its competition.

Objective 4: List one legal requirement for running this business.

JUAN AND JOSE THINK ABOUT THEIR OWN BUSINESS

Juan Gomez is a skilled mechanic. He has worked for three farm equipment dealers since he graduated from high school six years ago. He has been wondering about opening his own equipment repair business. His brother Jose thinks he should. Jose has studied business and wants to manage the shop for Juan. He has worked as manager of a gas station.

"You can do it, Juan," Jose tells him. "You can fix any kind of tractor or combine. You can fix small equipment, too. The farmers like you and know they can count on you. You always work overtime to get equipment fixed for the farmers during growing season. And you've always liked doing jobs yourself the way you want to. I think you'd like being your own boss! And so would I."

Juan says, "There are two farm equipment dealers around here with service shops. What could we do to compete with them?"

Jose says, "Dealers don't send people to fix equipment in the field unless they have to. We could make that our specialty."

Juan and Jose decide to open their own business. The next day they go to the county seat to get a business license. They also have to write their state taxing agency and get a permit to sell parts.

They talk to a lawyer and decide to set up their business as a partnership. Then they talk to an insurance agent about what kinds of insurance they need. They try to plan carefully so their business will be off to a good start.

Planning a Farm Equipment Repair Business

There are many, many small businesses in America. Small businesses can have as few as one worker (the owner) or as many as four workers. A small business owner is "self-employed." Often a whole family works together in a small business.

Juan and Jose have thought about four main things in planning their farm equipment repair business. First, they have decided their personal qualities are right for the business. Second, they have thought about their services, customers, and competition. Third, they have decided to offer special services so they can compete well. Finally, they have learned about legal requirements for running their business.

Personal Qualities

Juan and Jose have talked about whether they "have what it takes" to run a farm equipment repair business. They think they do, because:

- they have training and skills in fixing farm equipment and in running a business;
- they are willing to work hard;
- they can be counted on to get jobs done; and
- they want to be their own bosses.

During the growing season, farmers need to have their equipment working as much as possible. Owners of a farm equipment repair business should be willing to work overtime to help farmers.

Services, Customers, and Competition

Services. Farm equipment repair businesses serve large and small farmers. They fix equipment like tractors, sprayers, combines, and harrows. Some services may fix equipment like milking machines and milling equipment. Repair businesses can also fix lawn and garden equipment, like lawnmowers and rototillers. Some repair services in cities and towns fix only lawn and garden equipment. Juan and Jose have decided to specialize in fixing farm equipment of all kinds.

Customers. Farmers are the customers in farm areas. In areas with only very large farms and large equipment, farmers may take this equipment only to dealers' shops. In areas with small farms, where equipment may be small and dealers less plentiful, farmers are more likely customers for a small repair business.

Competition. Farm equipment dealers usually have repair services as part of their businesses. You can find these dealers in the Yellow Pages of your phone book. Their mechanics are specially trained to work on the equipment they sell. Small repair services must have very good mechanics to compete with dealers. Special services can help them compete. Small repair services are also in the Yellow Pages. There may be many small repair services in cities and towns.

Special Services

Juan and Jose know they have to compete with large dealers. So they decide to offer these special services.

- They will go to the farms to do repairs whenever they can.
- They will fix smaller equipment as well as large.

There are other special services they could offer, too.

Checkups on farm equipment during the winter season. Some shops do this for free to attract customers. Then if any work needs to be done, the shop can charge for it.

Special guarantees. Dealer shops guarantee their work. Small shops can offer longer guarantees.

Special business image. Juan and Jose can use their special services to make their business stand out in people's minds. They decide to call it "On-the-Spot Equipment Repair." They also decide to use the slogan "We come to you." They want to build an image of their business as one that will save farmers time and trouble.

Legal Requirements

You should contact your state business licensing agency to learn about the laws for a farm equipment repair business. Every state requires a business operator's license to open a business. Most states also require a permit from the state tax agency for selling parts to customers.

Summary

It is important to plan ahead before starting your business. Now you know four things to think about in planning a farm equipment repair business.

Learning Activities

Individual Activities

1. List two legal requirements for starting a farm equipment repair business. Call or write your state business licensing agency to find out if your state has any other requirements.

2. Would you like running a repair business? Check each statement below that fits you.

   _____ I'm willing to work hard.

   _____ I can be counted on to get things done.

   _____ I really like doing things on my own.

   _____ I'm good at fixing things.

   _____ I'm interested in how a business is run.

3. Find out what farm equipment repair services are in your area. Are any of them small (no more than four workers)?

4. Can you think of any other special services a repair business could offer? Make a list of them.

Discussion Questions

1. Why do you think an area with many small farms might be better for a small repair business? Is your area like this?

2. Why do you think Juan and Jose want to be their own bosses?

3. What problems could Juan and Jose face if their business fails?

Group Activity

Go to the owner of a small farm equipment repair service. Ask that person to come and talk to the class. If there are no small shops, ask the manager of a dealer's shop to come. Ask the person to talk about the business.

Plan what questions you will ask the service owner or manager. You might ask these questions and others:

1. What kinds of equipment does your service work on?

2. What is your day like? What do you do? How many hours do you usually work?

3. What experience and training do you have for your job?

4. What are the good and bad parts of your job?

5. Do you think this is a good area for a small repair shop to open? What areas might be better?

If the person is the owner of the business, you could ask:

6. Why did you want to open your own repair business?

7. How long did you plan before you opened?

8. How much money did it take to get started? Where did you get it?

UNIT 2

Choosing a Location

Goal: To help you choose a location for a farm equipment repair business.

Objective 1: List three things to think about in deciding where to locate this business.

Objective 2: Pick the best location for this business from three choices and explain your choice.

JUAN AND JOSE DECIDE WHERE TO LOCATE

Juan and Jose know most of the farmers in the area. They talk to some of them. They ask if the farmers would like to use their repair service. All but two say yes.

Juan also talks to the manager of one of the shops where he worked. The manager says the dealer's shop has lots of business. In fact, it has more than it can do.

Juan and Jose decide to go ahead and open a shop. Now they have to decide where to put it.

They have decided they will need about 4,000 square feet of indoor space. They need a work area of 3,000 square feet for customers who might want to bring their equipment in. They need 800 square feet of space to store equipment and parts and to park their truck. And they need a small amount of office space, about 200 square feet. They also need some paved space outside.

Juan and Jose talk to a real estate agent, Ms. Bailey, about what they need. She tells them there are two places they could choose. One is in town about two blocks from a farm equipment dealer. The other is out on the highway.

The place in town used to be an auto garage. It has a hydraulic lift and other equipment. It is hardly big enough and has little space outside. It leases for $1,800 a month.

The place on the highway is bigger and has lots of space outside. It was used for storage by a small trucking firm. It has no lift or other equipment. The lease is $1,500 a month for this space.

Juan and Jose decide to take the place on the highway. They will be closer to many farms. They think people will notice the shop better there. They think they can put in the equipment they need. Ms. Bailey helps them work out a three-year lease with the owner. Before they sign it, they will be sure they have enough money to get started.

Choosing a Location

Choosing a location is important. You have to be sure that the area has enough customers for your services. For a farm equipment repair business, you might even have to move to a different state to get enough customers.

To find out how many customers you might get, you have to ask questions. You can get answers from:

- people who might be customers;
- people who have worked in the business;
- official groups of people in your business (An equipment dealer association might help. It can give you information about shop services, too.); and
- city or county agencies, such as the planning department.

Once you are sure the area has enough customers, you have to pick the spot for your business. There are five things to think about.

- The space has to be large enough for your needs.
- It has to be where it will attract customers.
- It has to have the right equipment, or else be easy to add equipment to.
- It has to be in good shape.
- The price has to be one you can pay.

Picking an Area

Juan and Jose talked to several farmers about their service. This is a good way to find out whether people would use your service.

But sometimes you don't know who your customers would be. So you have to ask others. People who have worked in the business can tell you if they have lots of customers or just a few.

Official groups can help, too. An equipment dealer association can tell you how many shops there are in its area. It can also give you other information on services and prices.

The city or county planning department can tell you a lot about the area. It can also tell you if changes are planned that might affect your business. For example, a new highway or a change in the zoning law might be important to you.

Picking a Spot

Size. Juan and Jose needed three kinds of space. They needed work space, because some work involving heavy or complicated equipment will have to be done in the shop. And some customers might prefer to bring their equipment into the shop for service.

They needed storage space to store their spare parts and equipment. They also needed some outside space to park equipment they weren't working on. And they needed office space to store their business forms and to talk to customers.

All repair businesses need these three kinds of space. But some don't need as many square feet. A lawn and garden equipment repair business needs much less space. Some people even run this type of business out of their own homes.

Location. Juan and Jose have decided that the highway location is better for their business. They had three reasons for this. They want to stay away from competition. They don't want to be very close to a dealer's service shop.

Also, they want their business to be noticed. They want their business to be in a place where it can be seen and remembered. They think that in town, it would be "just another business."

They want to be close to customers. They can get to many of their customers more easily than they could from town. (Of course, some customers on the other side of town will be farther away. But you can't have everything!)

Equipment. The place on the highway doesn't have a hydraulic lift or other equipment they need. But it has oversize doors on each side of the building. Juan and Jose think they can put in what they need. They talk to a repair equipment dealer to find out the price of what they need. The dealer tells them it will cost $32,000 to put in equipment.

When you look for a place for a business, you can't always find one "all ready to go." But a good location is worth choosing. Remember to include the cost of changes in figuring how much money you need.

The shape it's in. Juan and Jose's place was okay. But if a place needs fixing up, that costs money. The building should be strong and secure. Heating, plumbing, and wiring should all work well. The roof should not leak. Be sure to check all these things before you sign a lease or buy a place.

Most customers also like to do business in a clean, well-kept place. A coat of paint is a good idea.

What it costs. The place on the highway cost a little less than the one in town. But Juan and Jose planned to spend some extra money on equipment. Even so, they thought they could afford it. They had done a lot of thinking and planning about money. In the next section you will read about their plans.

Summary

Choosing a location is important. First, you have to pick a good area with enough customers. To be sure you do that, you have to get as much information as you can. Second, you have to pick a good spot for your shop. Now you know some things to think about in picking a location.

Learning Activities

Individual Activities

1. List two things Juan and Jose didn't do when they were picking an area for their business.

2. Find out where repair businesses are in your area. Are they all close together or far apart?

3. List the three kinds of space a repair shop needs.

4. Figure out how much Juan and Jose will pay to lease their shop on the highway for three years. Add on the cost of putting in the hydraulic lift and other equipment.

   If they had leased the place in town for three years, would they have spent more or less? (Remember, the place in town didn't need extra equipment.)

5. List the three reasons Juan and Jose picked the spot on the highway.

Discussion Questions

1. Is it always good to be far away from competition? Could it be good to be close to them?

2. Juan and Jose didn't talk to the county planning department. What problems could they have because they didn't?

3. How can you figure out the price you can afford to pay for a spot?

Group Activity

Several groups of three or four students each should contact one or more farm equipment repair business owners. When you call them, ask where their businesses are located. Each group of students should visit a separate location. Write down what the area is like, the building condition, and other things that describe the location. Or draw a picture of the spot. Report on the locations to the class.

During the visit, ask questions such as the following.

- Are your customers nearby? If not, how far away are they?
- Is gasoline a big part of your monthly expenses?
- How much space do you have in your building? How is it divided up?
- Is rent a big part of your monthly expenses?
- How often do customers visit your office? Can you tell what they think of the location?

UNIT 3

Getting Money to Start

Goal: To help you plan how to get money to start a farm equipment repair business.

Objective 1: Write a business description for this business.

Objective 2: Fill out a form showing how much money you need to borrow to start this business.

JUAN AND JOSE APPLY FOR A LOAN

Juan and Jose have been thinking about how much money they need to start their business. They have made two lists: one list of starting expenses, and the other list of money on hand. They have listed these expenses to start their business:

Equipment (hydraulic lift, etc.)	$32,000
Truck	10,000
Paint	500
Parts	25,000
Repair supplies (oil, etc.)	1,500
Office furniture	1,000
Office supplies (paper, etc.)	500
Insurance	1,000
Advertising	1,000
Salaries--owners: 2 x $1,000 for 3 months	6,000
employee: $1,000 for 3 months	3,000
Lease of building for 3 months (@$1,500)	4,500
TOTAL	$86,000

Their "money on hand" list includes these items:

Savings	$10,000
Loan from parents	10,000
TOTAL	$20,000

They can see that they need a loan of $66,000 to start their business.

They plan to visit Farmtown National Bank to borrow the money they need. To show the banker that they should get a loan, they write a description of their business. They tell what their business will do and who it will serve. They also tell about their special services. They try to show why their idea for a business is a good one.

Juan and Jose also write about themselves. They explain their past training and experience. They show that they have paid their bills in the past. They want to show the banker that they are "good risks" who will repay the bank's money.

Getting Money To Start

Starting a small business takes money. There are many one-time costs right at first, like buying equipment. Starting a farm equipment repair business takes more money than many other businesses. This is because equipment costs a lot.

Usually you need a loan from a bank or a government agency. To get a loan, you need to give the bank three kinds of information in writing:

- personal information on yourself;
- a description of your business; and
- a statement of your starting expenses, cash on hand, and loan needed, called a "statement of financial need."

Personal information is often written in the form of a resume. A resume shows your education and experience and gives names of references. This module won't give any more information about resumes. Instead, it will deal with the description of your business and the statement of financial need.

Description of Your Business

A business description should tell the banker everything important about the business. A business description has five parts:

Kind of business and service provided. Juan and Jose write that their business will be repairing equipment for farmers. They also write about the kind of equipment they need in their shop and truck.

Location. They describe the shop they have picked and why they think it's a good choice. They talk about how big it is, how close it is to many farmers, and how easy it is to see from the road.

Competition. They write about the dealer repair shops in the area. They explain that these dealers mostly work on special equipment for large farms. They also explain that most dealers don't like to make repairs on the farm.

Customers. They write about the needs of smaller farmers in the area. They explain that these farmers often don't have special equipment and don't need dealer repairs. What small farmers need is to save time and trouble.

Plans for success. Finally, they describe how they will help farmers save time and trouble. Their truck will carry as much repair equipment as possible when Juan goes on jobs. They will make field repairs their specialty.

A business description should show the banker that you have a good idea. It should contain facts that prove your business has a good chance to succeed. It should also show that you think your idea is a good one.

If you feel your idea is good but the banker doesn't, don't give up. Check with other banks in the area. If you still get turned down, the Small Business Administration makes some loans. Call the nearest office.

Statement of Financial Need

Juan and Jose asked the banker if there were any special forms for them to fill out. The banker said "Yes" and gave them a statement of financial need. After they filled it out, it looked like this:

STATEMENT OF FINANCIAL NEED

Starting Expenses		Money on Hand	
Salaries	$ 9,000		
Building Expenses	4,000		
Repairs and Renovations	500	Cash on Hand	$10,000
Truck	10,000	Gifts or Personal Loans	10,000
Equipment and Furniture	33,000		
Parts	25,000	TOTAL	$20,000
Supplies	2,000		
Advertising	1,000		
Other	1,000		
TOTAL	$86,000		

TOTAL STARTING EXPENSES	$86,000
TOTAL MONEY ON HAND	20,000
TOTAL LOAN MONEY NEEDED	$66,000

Starting expenses. Juan and Jose first listed their expenses. They thought it would take them about three months to get going. They had to paint and equip the shop and buy and equip a truck. They also needed to advertise. After three months they hoped to have enough customers to bring in enough money to start covering expenses. So their expenses for lease and salary covered three months. They took small salaries, just enough to get by on.

Jose found out the costs of office furniture and office supplies by calling an office supply shop. Because Juan had worked in shops before, he knew what parts would be needed. He also knew how many to order at first and how much they would cost. They planned to do the painting themselves, so they only listed the cost of paint. Under "advertising" they put the cost of painting signs on their building and truck and mailing announcements to farmers.

They have to decide where to put their costs on the form. Under "Salaries" they put enough for themselves for three months. They think they need to hire one employee too. So they also put in money for an employee's salary for three months.

Under "Building Expenses" they put the cost of three months of their lease. Under "Repairs and Renovations" they put the cost of paint. The "Equipment and Furniture" line includes several of their expenses. They put the cost of equipping the shop, equipping the truck, and buying office furniture.

Under "Supplies" they put repair supplies and office supplies. "Advertising" is easy. Under "Other," they put the cost of insurance.

Money on hand. Both Juan and Jose have been saving money for several years. When they add their savings together it comes to $10,000. Jose thinks the bank will want them to put up more money. Their parents are willing to lend them $10,000.

Banks want you to use your own money as well as their loan to start your business. It may take several years of saving to get enough. Sometimes family or friends can lend you money. Or they may invest in your business, hoping they will make more money.

It is important to think carefully about how much money you need. If you ask for too much, you may not get the loan. If you ask for too little, your business may go broke.

Summary

You need money to start a business. You will probably have to borrow from a bank or government agency. Now you know the kinds of information to give them when you ask for a loan.

Learning Activities

Individual Activities

1. List two kinds of places that may lend money to start a small business.

2. In your own words, write a description of Juan and Jose's business. Try to show why their idea is a good one. Don't forget to include all the parts of a business description.

3. What are the three main parts of a statement of financial need?

4. Suppose you wanted to start a repair business. You will have these expenses:

Equipment	$15,000
Lease for 3 months at $2,000 per month	6,000
Build extra shop space onto building	10,000
Parts	20,000
Repair supplies	1,500
Office supplies	500
Insurance	500
Furniture	300
Newspaper ads	200
Employee salary - 3 months at $1,000 per month	3,000
Owner salary - 3 months at $1,000 per month	3,000

You have $10,000 in savings and a loan of $5,000 from your family. Fill out the statement of financial need on the next page.

STATEMENT OF FINANCIAL NEED

Starting Expenses		Money on Hand	
Salaries	_____		
Building Expenses	_____		
Repairs and Renovations	_____	Cash on Hand	_____
Equipment and Furniture	_____	Gifts or Personal Loans	_____
Parts	_____		
Supplies	_____	TOTAL	_____
Advertising	_____		
Other	_____		
TOTAL	_____		

TOTAL STARTING EXPENSES	_____
TOTAL MONEY ON HAND	_____
TOTAL LOAN MONEY NEEDED	_____

Discussion Questions

1. Suppose you are a banker. A man comes to borrow money to start a repair business. He has talked to farmers and other dealers and thinks the business will do well. He has been a mechanic for 30 years and has managed a dealer's shop. But he only has $5,000 and asks to borrow $35,000. What would you tell him? Why?

2. Again, suppose you are a banker. A man comes to borrow money to start a repair business. He studied agricultural mechanics in school, but he has never worked as a mechanic. He has not talked to the farmers or other dealers, but he thinks having his own business would be great. He has $32,000 and wants to borrow only $8,000. What would you tell him? Why?

Group Activity

As a class, write a list of starting expenses for a repair service in your area. The class could also break into teams, with each team doing some research on costs. For example, one team could talk to an insurance agent to find the cost of insurance. Another could talk to a parts supply shop owner, and so on.

UNIT 4

Being in Charge

Goal: To help you learn how to plan work for the employees of a farm equipment repair business.

Objective 1: Decide how to divide the work of the business among the workers.

Objective 2: Pick the best person to hire for a job in this business.

JUAN AND JOSE HIRE AN EMPLOYEE

Juan and Jose have decided they should hire another mechanic for their business. They want to be sure to get work done quickly when they open, so customers will like their work. Having two mechanics will help them do that.

There are several ways to divide the work. One mechanic could stay in the shop and the other could do all the field work. Or one could work on the bigger farm equipment and the other on smaller equipment. Or the new person could assist Juan in whatever he did.

They decide to hire a person to repair the smaller farm equipment. First they write down what the person will do. Then they put an ad in the newspaper.

Three people apply for the job. Ann has studied mechanics in high school and worked fixing small farm equipment for two years. Eddie has also studied mechanics. He has worked on equipment for friends, but never had a job. Tom has studied mechanics and held four jobs in three years.

Juan and Jose decide to talk to Tom and Ann. Both Tom and Ann seem okay. So Jose calls the people they listed as references. Ann's boss says she is a good worker who gets things done on time. Two of Tom's bosses say he was late a lot and often called in sick.

Juan and Jose decide to hire Ann. She takes the job and comes to work for them.

Being in Charge

Most small businesses hire extra workers at some time. To get good work done, you have to decide exactly what your worker should do. Then you have to find a good worker. A good worker knows how to do the job and also is reliable.

Another important part of good work is how well people get along together. Both owners and employees need to think about this.

Dividing the Work

Juan and Jose decided to divide the work so that Juan fixed large equipment and Ann fixed small equipment. There were also other ways they could have divided the work. These are the ways:

Kind of work. This is what Juan and Jose decided to do in Ann's case. Also (without really thinking much about it), they had already planned different work for the two of them. Juan planned to do the mechanic's work, and Jose planned to do the office work. Now they will split the work three ways: office work, repair of large equipment, and repair of small equipment.

Place of work. Juan could have done the field work. Ann could have done the shop work. If they had done this, Ann might have had to fix large or small equipment in the shop. She would have to be good at both.

Level of work. Juan might have had Ann help him in whatever work he did. He might have had her keep track of parts. If they had done this, Ann wouldn't have had to do many jobs on her own. She wouldn't have needed as much training or experience.

The kind of workers you hire depends on what kind of work you want them to do. You should be sure of this before you hire them. To be sure, it helps to write down a job description for each worker. Owners' jobs should have job descriptions just like employees' jobs.

Hiring a worker. A job description should list all the kinds of things a worker does. Even the owners' jobs should have descriptions. That way, everybody knows who does what.

After they wrote their job descriptions, Juan and Jose put an ad in the newspaper. The ad said, "Wanted: farm equipment mechanic. May work in shop or in the field. Should have training and at least one year of experience. Salary $1,000/month. Call 555-2875."

Using the newspaper is a good way to get workers. But not everyone who answers the ad would be a good worker. You should ask each person about his or her training and experience. Then you can talk to the best ones in person. Juan and Jose decided Eddie didn't have enough experience. They only talked to Ann and Tom.

When you talk to people about the job, you should learn as much as you can about their work. Juan and Jose asked about what kinds of equipment Ann and Tom had worked on. They asked if Ann and Tom would be willing to work overtime.

Juan and Jose also talked about the job. They explained the pay, the work hours, and the fact that some jobs may be done in the field. Workers need to know about the job so they can decide if it's right for them.

Juan and Jose liked both Tom and Ann. But they knew they should find out about their work from others, too. They got references from both Ann and Tom. References are people who know your work. Usually references include employers you have worked for.

Tom's employers thought his work had been good. But they said he hadn't been very reliable. Juan and Jose wouldn't have know this just by talking to Tom. They were glad they had taken time to call.

Juan and Jose went through five steps in choosing Ann to work for them:

- writing a job description;
- advertising the job to people who might want to take it
- looking at the training and experience of people who applied;
- talking to applicants about their work and about what the job will be like; and
- checking references from employers.

After you have hired your employee, you should help her or him learn about the job. You may need to do some extra training if the person hasn't done every kind of job you do.

Your employee needs to know how to do things like record work hours, too. You should show your employee where things are and how you do things. If the employee will deal with customers, you need to explain how to do that as well.

Finally, you and your employee should talk about how to keep things going well. Maybe you'll want to talk once a week for a while about how the job is going. Maybe you'll want to set up a "trial period" and then talk. Both the owner and the employee have to be satisfied for things to work out right.

Summary

Being a boss takes some effort. Now you know some things to think about in dividing the work. You also know some steps to follow in hiring an employee.

Learning Activities

Individual Activities

1. List the three ways work can be divided. What is good about each way? What is bad?

2. Look through newspaper want ads to see if you can find ads for agricultural mechanics. What kind of workers do they ask for? What kinds of information do the jobs include? (Job title, description of work, experience needed, salary offered, phone number, anything else?)

3. Write a job description for Juan's job and for Jose's job. List as many things as you can that you think they might do. You can look ahead in this module if you want to.

4. List the five steps in hiring a worker. Why is each step important?

5. Call the nearest office of the Internal Revenue Service and ask for the "Small Business Tax Kit." List all the different kinds of forms a business owner must fill out for a hired employee.

Discussion Questions

1. If you were running Juan and Jose's business, would you have divided the work the way they did? Can you see any problems because Ann works only on small equipment?

2. Why is it important to write a job description for an employee's job? For an owner's job? Could doing this prevent any problems later?

3. Can you think of any other places you could put an ad to hire an employee?

Group Activity

Suppose that Juan and Jose's business has been going for almost two years. One day Juan and Ann start arguing. Ann says, "But I thought, in time, you were going to let me learn about working on bigger equipment."

Juan says, "Your job description says just small equipment. That's what we told you from the beginning."

Ann says, "But I really want to work on bigger equipment. And I could be so much more help to you if I could do all kinds of jobs."

Juan says, "You've already got too much work on small equipment. And besides, your work on the small equipment hasn't been too good."

As a class, discuss the problems Juan and Ann are having. Is there just one kind of problem, or more than one? Can you think of other examples of the kind of problem or problems? What ways are there to solve the problem or problems? How could the problem or problems have been prevented?

UNIT 5

Organizing the Work

Goal: To help you learn how to keep track of the work of a farm equipment repair business.

Objective 1: On a work order form, show how to write up a repair job for a customer.

Objective 2: Write a one-day work schedule for workers in this business.

JUAN AND JOSE GET ORGANIZED

"On-the-Spot Repairs" has opened and seems to be doing well. The farmers really like having jobs done in the field when it's possible. They also like having Ann repair small equipment while Juan works on larger equipment.

Sometimes it's hard to get all the jobs done though. Two farmers may want jobs done on the same day. But the business doesn't have enough money yet to buy a second truck.

Juan and Ann try to get all the jobs done by carefully scheduling the work. They try to plan for Juan to go to several farms in one area at the same time. Then he will go to another area. Ann stays in the shop, doing repairs on small equipment.

One day two farmers call and ask for tractor repairs. One of the farmers also needs some small equipment repaired. A third farmer asks them to fix a hedge clipper when they can.

The three farms are close together. First Juan goes to the farmer that wants both large and small equipment repaired. He does the repair on the large equipment and picks up the small equipment. After that, he goes to the other farmer who needs tractor repairs. Finally, Juan picks up the hedge clippers from the third farmer. They get all the big repairs done by the end of the day. Ann fixes the small equipment the next day, in time for Juan to deliver it at the end of the day.

Later in the week Jose calls each farmer. He asks if all the equipment is working okay. He asks if they need anything else. The farmers all say the equipment works fine. One farmer asks them to come back and work on some spraying equipment.

Organizing the Work

A repair service owner has to be sure that all jobs get done. There are three steps:

- organizing the work;
- doing the work; and
- checking the work.

To do these three steps, the owner has to keep track of jobs that customers request. An easy way to do this is to fill out work orders as customers call in. By looking at the work orders, the owner can plan a work schedule to get jobs done.

Organizing the Work

Jose has chosen a work order form to use for their business. The form, on the next page, has been filled in for a job for the Angeles farm.

When a farmer calls in, Jose writes down the name and address on the form. He writes it by "Job For." Then he writes a short sentence under "Description of Work." This says what kind of job it is. Jose also notes about how many hours it will take (hours estimated).

Jose asks the farmer what day the job should be done. He writes this by "Start Work On." Then he asks how the farmer wants to pay for the job. Next to "Terms of Payment" he writes either "Credit" or "Cash," whichever the farmer says.

WORK ORDER

FROM: On the Spot Repairs
1800 County Road
Farmtown

DATE: July 12
WORK ORDER NUMBER: 00073
ORDER TAKEN BY: Jose

JOB FOR: Angeles Farm
15700 Highway 52
Farmtown

START WORK ON: July 14
TERMS OF PAYMENT: Credit

Person Doing Work	Description of Work	Parts	Labor	Total Cost
Juan	Replace tractor axle bearings (6 hours estimated)	60 00	180 00	240 00

WORK STARTED: July 14, 9:30
WORK FINISHED: July 14, 1:30

TOTAL PARTS	60 00
TOTAL LABOR	180 00
TAX	3 00
TOTAL COST	243 00

After they hang up, Jose fills out more of the form. He puts in the date. He puts his name by "Order Taken By." Then he files the form for Juan and Ann to look at.

Each day Juan and Ann look at the new work orders. They plan when to do the new jobs, as well as finish old ones. They try to plan jobs on the day the farmer has asked for. If they can't, they call the farmer back and figure out another day.

Juan and Ann make a list of all the jobs. Then they plan a work schedule for each of them. They plan who will do each job and when to

do it. They check to be sure they have all the parts and supplies to do the job.

If they need anything, Jose orders it for them. He keeps track of parts and supplies and pays for them.

Doing the Work

When Juan goes to do jobs, or pick up equipment to be repaired, he takes his work orders with him. The forms tell him where he is to go and what he will be doing. He finishes filling out the forms at each job. Fairly often a farmer brings equipment to the shop for the repairs to be done there. Whenever this happens, Ann or Juan fills out a work order and gives the farmer a copy before he or she leaves.

By "Person Doing Work," the person filling out the work order writes the name of the worker for that job. Under "Parts" is written the cost of the parts and supplies used. Under "Labor" is written the cost of the worker's time.

The cost of labor depends on how many hours Juan or Ann works. They have to keep careful records of this. At the bottom of the form, by "Work Started," they write the date and time they start. When they finish the work, they write the date and time under "Work Finished."

When the job is through, they can figure the total costs. They add up the cost of all parts and supplies used to get "Total Parts." They add up the cost of all labor by both of them to get "Total Labor." They figure the tax on the parts and put it by "Tax."

They add up the total figures and tax to get "Total Cost." They leave a copy of the work order with the farmer. They also give a copy to Jose so he can keep the farmer's account up to date.

Work orders are a big help to a repair business. They help the owners keep track of jobs that need to be done. They help the owners plan a work schedule. And they help the owners keep track of how much farmers should pay them.

Checking the Work

Juan and Jose know it is very important that farmers like their work. If farmers don't think the job was done well, they won't call them for other jobs. They may also tell other farmers not to call.

So Jose checks on every job after it's done. If there are any problems, Juan and Ann follow through to fix them.

When Jose calls to check on the work, he also does something else. He asks if there is anything else the farmers need to have done. This is a good way for the business to get more jobs to work on. You will read more about this in the unit on "Advertising and Selling."

Summary

It is important for a repair business to get jobs done efficiently. Using work orders carefully can be a big help. Planning a work schedule for each worker helps the work get done on time. Three things to think about in running a repair service are organizing the work, doing the work, and checking the work.

Learning Activities

Individual Activities

1. One day the Flanagans needed an axle on a combine replaced. Jose fills out the form:

WORK ORDER

FROM: On the Spot Repairs
1800 County Road
Farmtown

JOB FOR: Flanagan Farm
Highway 30

DATE: July 10
WORK ORDER NUMBER: 00075
ORDER TAKEN BY: Jose

START WORK ON: July 12
TERMS OF PAYMENT: Credit

Person Doing Work	Description of Work	Parts	Labor	Total Cost
	Replace axle on combine (6 hours estimated)			

Work Started _____
Work Finished _____

TOTAL PARTS
TOTAL LABOR
TAX
TOTAL COST

Juan goes out to the farm on the 12th. He starts work at 9:15 a.m. He does the job in six hours at $30 per hour. So the total labor charge is $180. The charge for the axle is $150. Tax is 5% of the cost of parts only (not labor). Complete the work order for this job.

2. What are three reasons that work orders are a help to a repair business?

3. Why is it important for Jose to call later to check on the work?

Discussion Questions

1. McBee's Repairs opened in an area of small farms. When people called, Joe McBee wrote down work orders on little slips of paper. He stuck them in a drawer and did the jobs when he could. He didn't write down how long he worked at each job until he got back to the shop at night. Why do you think McBee's Repairs went out of business?

2. Do you think it is always easy for Juan and Ann to make up work schedules for themselves? Why not? What could make it easier?

3. When Jose calls to check on work and asks if there are any other jobs, this is a form of "selling." Why is it called selling?

Group Activity

Collect work order and work schedule forms from repair businesses in your community. Also ask for any other types of forms the owner uses. These may include estimates, purchase orders for parts and supplies, job files, additional work authorizations, and others.

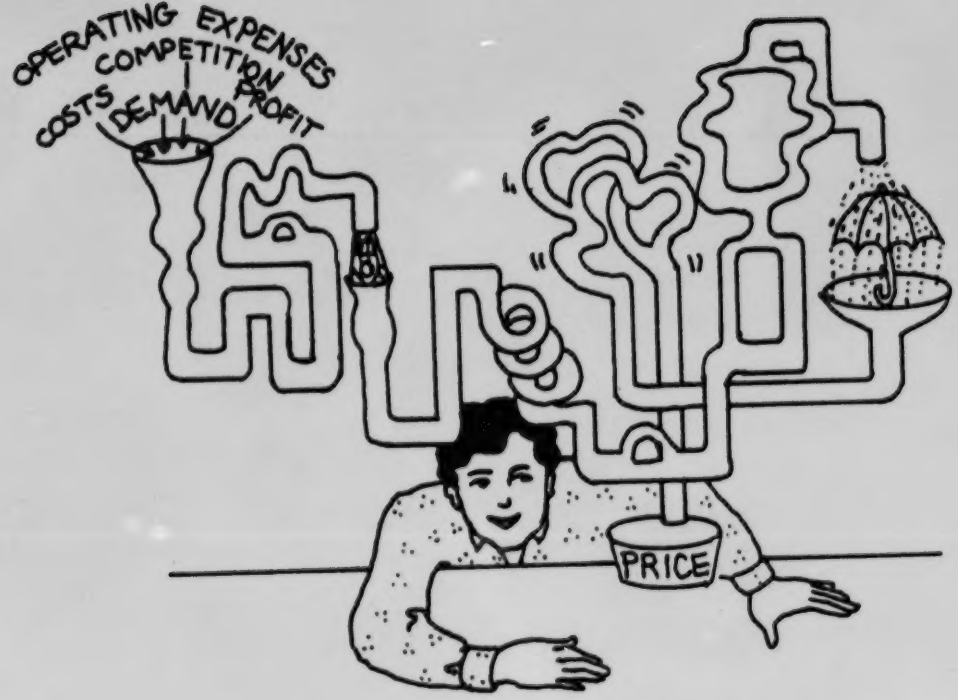
As a class, talk about how these forms would be used. Decide if each one would be used before or after a work order. Decide if each would be used before or after a work schedule. Make a list of the order of use of the forms.

UNIT 6

Setting Prices

Goal: To help you decide how to set prices for a farm equipment repair business.

Objective 1: Pick the best price for one of the services of this business.


OPERATING EXPENSES
COMPETITION
COSTS
DEMAND
PROFIT
PRICE

JUAN AND JOSE DECIDE HOW MUCH TO CHARGE

Juan and Jose are thinking about how much to charge for their repair services. First, they make a list of all their expenses.

They list "Repair Parts and Supplies." This includes things like pistons, brake shoes, hydraulic fluid, and spark plugs. For one month, these cost:

Repair parts	$6,800
Repair supplies	1,200
	$8,000

Then they list "Operating Expenses" for every month:

Lease	$1,500
Ann's salary	1,000
Advertising	100
Utilities (phone, electricity, water)	100
Insurance	150
Payments to accountant	150
Payment on loan debt	1,000
Repairs on equipment	250
Office supplies	50
Gas and oil for truck	500
Other	1,000
	$5,800

They also need enough money for each of them to get a salary. They each need about $1,000 a month to live on. So altogether they need to make $2,000 each month for themselves.

They know that customers pay directly for repair parts and supplies, charged as "Materials." But all the rest of their expenses have to be met by the cost of "Labor." They need to figure out how much to charge per hour for labor.

They add up their operating expenses and their own salaries. This comes to $7,800.

Setting Prices

Prices for repair services can't be set wherever the owner would like. There are two main things to think about in setting prices:

- parts; and
- labor.

Parts

Juan and Jose will be charging their customers directly for parts such as pistons, rings, spark plugs, filters, and hydraulic fluid. These charges will go right on the bill. The charge will include the amount they paid for the parts plus some markup. They don't need to figure these costs into their charge for "Labor." "Labor" charges cover all the other expenses, those the customer doesn't pay for directly.

Labor

In deciding how much to charge for "Labor," Juan and Jose consider the following:

- operating expenses of the business;
- profit needed or wanted;
- demand for repair services; and
- competition.

Juan and Jose add up the amounts they expect to spend each month on the first two items.

$5,800
2,000
$7,800

They know that this is the lowest amount of income they must get every month. If they make less than this, the business may fail after a while.

Together, Juan and Ann can work about 280 hours every month. If they charge $28 for every hour, they will make around $7,800. If they charge more, they will have extra.

Juan knows that the dealer shops where he has worked charge as much as $35 an hour. Of course, the dealers' mechanics have special training and equipment. Thirty-five dollars an hour would be the highest rate Juan and Jose could charge. The right price for their service lies somewhere between the lowest ($28) and the highest ($35) price. So Juan and Jose decide to charge $30 an hour for labor at the beginning. Later, when they are established, they will probably charge more. A mobile service demands a higher price. It costs more to deliver repair services.

If people didn't need or want repair services very much, then demand would be low. If demand is low, high prices might make people stop buying completely. But Juan and Jose are sure people will want their service. They did a lot of checking to find that out before they even opened their business.

They can't charge more than the dealers, $35 an hour, or nobody will use their service. The dealers are their competition. In fact, Jose knows that since theirs is a new business, they should charge less than the dealers do for a short period. That will help them attract customers.

If they charge $30 an hour for 280 hours of work, they will make $8,400. This will pay their expenses and leave them $600 extra. They will also charge their customers a 30% markup on repair parts. That will bring in some extra money. This extra money will let them pay any unexpected bills in case they need new tools, equipment, or trucks.

Operating expenses of the business. Operating expenses are the costs a business must pay just to keep its doors open, whether or not it gets any customers. For Juan and Jose, operating expenses include:

- employee salaries;
- lease of the shop;
- insurance;
- advertising;
- utilities;
- payments for accounting services;
- payment on loan debt; and
- supplies.

Ann's salary, the cost of the lease, and payment on the loan debt are the big parts of their operating expenses. To lower their lease cost, they would have to move. They don't want to. They might be able to get an employee for a lower salary. But to get a good worker, they pay Ann a fair salary. Payment on the loan debt is a "fixed" expense. They cannot change it.

Juan and Jose know that their monthly income must be enough to pay these operating expenses.

Profit needed or wanted. If Juan and Jose can charge $5,800 a month for "Labor" to pay their expenses, why do they need more? They need profit because they have to pay themselves too. Usually the owners of a business get paid out of the profit. If the profit is very small, they won't have enough money to live on. They hope to make at least $2,000 a month in profit to pay their own salaries.

But Juan and Jose feel they need even more than $7,800. They can pay operating expenses and a small salary for themselves with $7,800. But what if the truck should break? What if they need a new piece of equipment? The extra $1,440 a month will help them be ready for expenses they hadn't planned on.

Also, they do have some other expenses to pay out of profit. Besides their salaries, their profit is used to pay taxes. Costs of expanding their business would also come out of profit (for instance, if they bought a second truck).

Demand for service. Juan and Jose think that farmers will like their services and want to use them. That is, they think demand will be high. But they also have to consider the price of the competition: the dealers' repair shops.

Competition. Juan and Jose know that the dealers' mechanics are specially trained. This makes dealers' services worth more. So dealers can charge more. Dealers can also charge more because they are well known in the area. Juan and Jose know that to compete they must not charge too much for service, especially when their business is new. Most important, they must convince their potential customers that their service is special and very worthwhile.

Summary

Setting prices takes some thinking. You have to know what your expenses are, what your competition is charging, and what the demand for your services is before you set prices.

Learning Activities

Individual Activities

1. Make two lists, one headed "Parts" and one headed "Labor." List the kinds of items Juan and Jose will charge directly to customers under "Parts." List all their other kinds of expenses under "Labor." Explain why charges for "Labor" don't have to cover expenses for "Parts."

2. Check with the nearest farm equipment dealer's association to get a list of charges for labor. Also ask a small repair shop what its labor charges are. How do the two compare?

3. List three things profit is spent on.

4. List the three items that add up to the lowest price you can charge. List the two items that help you decide the highest price you can charge. Where does the right price lie?

5. A small repair service can make enough money one month and too little the next. How would you feel owning a small repair service? Would you rather be the boss and take the chance of no salary? Or be the employee and be sure of a salary?

Discussion Questions

1. If dealers' shops are only charging $30 an hour, what should Juan and Jose do? What if dealers' shops are only charging $28 an hour?

2. Do repair shops always charge for labor by the hour? How else could they charge? How could that be better than the "by-the-hour" way? How could it be worse?

Group Activity

Divide the class into two or more groups. Each group should write down this list of things to think about when you set the price of labor.

1. Demand for services
2. Competition
3. Operating expenses
4. Profit

Read the case study below about "Arrington's Diesel Service." Which of the five things do you think will be most important to Carolyn Arrington, the owner, when she sets prices? Which will be least important? When all groups have finished, report to each other what you decide. Did all the groups decide the same? If not, talk about why you decided what you did.

Arrington's Diesel Service

Carolyn Arrington is starting her farm equipment repair business in a location where the farmers are mainly wheat growers. She has talked with many farmers who want repair service. There are no equipment dealers nearby. Carolyn wants top quality mechanics. So she plans to pay higher salaries than other repair services. Her office rent and equipment insurance are higher than she planned. Carolyn plans to pay her staff and other expenses before she takes a salary for herself.

UNIT 7

Advertising and Selling

Goal: To help you learn ways to advertise and sell the services of a farm equipment repair business.

Objective 1: Pick one way to advertise this business.

Objective 2: Design a printed ad for this business.

"ON-THE-SPOT REPAIRS" ADVERTISES

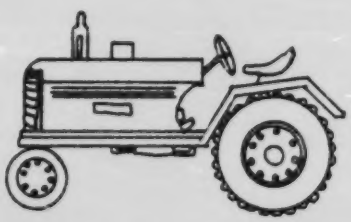
When Juan and Jose opened, they had to decide how to let people know about their business.

When they applied for the bank loan, they asked for money to paint signs on the building and the truck. They also asked for money to mail announcements to farmers. They think these are both good ways to let the farmers know about their service. Now they must plan what the signs and announcements will say.

They decided on the following ad for the announcement:

GRAND OPENING!!

Farm Equipment Repair



- Large and Small
- Repairs at the Farm
- "We Come to You!"

"On-the-Spot Repairs"
1800 County Road
Farmtown
555-8360

For the truck they decided to use the shop name, address, and phone number. They also put the slogan "We Come to You!" on the truck. The building will have their business name and slogan on it.

Advertising and Selling

Advertising and selling are the major ways that businesses get customers. Selling is done person-to-person. Advertising includes all the nonpersonal ways of letting customers know about your business. These can include:

- signs on the shop and its trucks;
- newspaper ads;
- magazine ads;
- Yellow Pages ads;
- direct mailings;
- radio or TV announcements;
- billboards;
- flyers posted around town (such as those on bulletin boards);
- business cards; and
- special items like matchbooks and pens.

Service businesses like repair services don't do too much selling. Customers usually call or come in only when they are already sure what they want. But service businesses can do all the different kinds of advertising.

Any small business should be listed in the Yellow Pages. Its name, address, and phone number should be next to other businesses of that kind. But not all businesses have ads in the Yellow Pages. Ads cost extra money. Business owners have to decide if the Yellow Pages are the best place for their ads.

Advertising

When you plan an advertising campaign, it's important to think about several things.

- Who are the people you want to reach?
- What do you want them to know?
- When should they know it?
- How can you reach them best?
- Why are you trying to reach them (sale, opening a new business, offering new services, etc.)?
- How much will it cost?

Juan and Jose thought about several kinds of advertising. They decided that there should be a sign on the shop and on the truck, of course. After all, once they've paid for the signs, this kind of advertising is free from then on. And besides, nobody could find the shop if its name weren't on it!

They also decided to mail an announcement of their shop opening to all the farmers in the area. In deciding this, they thought about all the points above.

Who was very important. Juan and Jose knew that their customers would be farmers, and they knew the names of all the farmers in the area. They decided they wanted to reach those particular people first, and to do it so that their message would be sure to be noticed.

What they wanted farmers to know was who they are, what services they offer, and how to find them. They listed their services in the ad. They also used pictures of the kinds of equipment they repair. Pictures get the message across quickly and make the ad more interesting.

When they wanted farmers to know about them was the day they opened. So they had to plan backwards to be sure that worked out. They allowed two weeks for designing, printing, and mailing the ad before the

shop opened. It's important to leave plenty of time so your advertising is put out when you want it.

They had several choices of <u>how</u> to reach the farmers. They could have put an ad in the newspaper or farm journal. But a lot of the people who would see the ad in those places might not be possible customers. And some possible customers might not see the ad, or might not notice it.

They decided to mail an announcement to each farmer. A mailed announcement fit their purpose very well. It isn't "easy to miss," like a newspaper ad, and it goes to exactly the people you want it to.

Sometimes you know the kind of person you want to mail announcements to, but you don't know all their names and addresses. In this case you have to search for names. The phone book, the county tax records, or a commercial mailing service may be of help.

<u>Why</u> was easy: Juan and Jose wanted possible customers to know that a new repair service had opened. So they added "GRAND OPENING!!" to their ad.

<u>How much</u> they had figured out. They wanted to send notices to about 50 farmers. The printing cost $10 for 50 copies. The postage was $7.50, so the total cost was $17.50.

If two ways of advertising are just as good, then choose the one that costs less. If an ad is cheap, but it doesn't reach the right people in the right way, then it's a waste of money.

<u>Designing an Ad</u>

A good ad is simple, truthful, attractive, and tells the important things about your service. There are several things to work on in planning an ad.

Headline. The headline should attract attention to your ad. It should be short and give some important information about your business. Juan and Jose chose "GRAND OPENING!!" because they knew it would get people's attention.

Illustration. Pictures make your ad more interesting. They can also get your message across quickly and simply. The tractor and lawnmower in Juan and Jose's ad quickly tell people what they repair.

Copy. Copy is what you write under the headline. It tells people the details of your business and any special services you offer. Juan and Jose listed their special services: farm equipment repair, with repairs at the farm whenever possible. They also put in their slogan, "We Come to You!"

Layout. The way the ad is laid out should be pleasing. It shouldn't look "busy" or crowded with too many words. Juan and Jose left plenty of "white space" in their ad. That way, readers can quickly see what's important.

Business identification. The identification of the business is very important. It should give at least the name, address, and phone number of your business. Juan and Jose wanted people to know how to find them easily and quickly.

Advertising is important in letting people who might be your customers know what you do. You need to know how to write a good ad and how to reach people with your message.

Selling

At the beginning of this unit, we said most service businesses don't do too much selling. But they do some. In the unit "Organizing the Work," Jose made calls to the farmers after the jobs were done. He

asked them if everything was okay and if they had any other jobs that needed doing. This is a kind of selling.

In fact, everything Juan, Jose, and Ann do to make farmers want to call them again is a form of selling. When they get jobs done on time, their customers are pleased. When they are friendly and fair, customers like to call them again. When they keep accurate records of work and payments, customers know the business is well run.

All these are ways that service businesses sell their services. And, if people in service businesses aren't reliable, friendly, and organized, customers won't want to come back. That's a form of bad selling for the business.

Promotion

Businesses do other things to make themselves known and liked. A business may sponsor a Little League team or give to United Way. It may give discounts or gifts to special customers. This is called promotion.

Summary

You can have the best repair shop in the world. But if people don't know it, your business may fail. Advertising and selling are the ways you let people know what you do. Now you know how repair businesses can advertise and sell their services.

Learning Activities

Individual Activities

1. Juan and Jose think they should run a regular ad after their business is going. They don't know whether a newspaper ad or a Yellow Pages ad would be best.

   They get these figures from the phone company and the newspaper.

	Yellow Pages Ad	Newspaper Ad
Readers:	45,000 people	40,000 people
Costs:	$200/mo. large ad	$200/mo. large ad (once a week)
	$75/mo. medium ad	$100/mo. medium ad
	$30/mo. small ad	$50/mo. small ad

   Go through the six steps of planning an ad campaign. Which place would you put your ad? Why?

2. Call your local newspaper and phone company. Ask for information on readers and costs for your area. Also call a local radio or TV station and ask for their advertising costs.

3. Design a printed ad for the following farm equipment repair service.

   Carter's Repair Service has a shop in town. Its mechanics make estimates in the field. Then they drive or tow equipment back to the shop for repairs. It has a 24-hour answering service. Mechanics will make emergency repairs any time. Carter's rates are slightly higher than any dealer's to cover transportation costs.

Carter's wants to put a medium-sized ad in the Yellow Pages.

In planning your ad, think about the headline, illustration, copy, layout, and business identification.

4. Ask a small business owner how he or she sells and promotes the business. Make a list of the ways.

5. Look in newspapers, magazines, and the Yellow Pages for a printed ad you like. Listen or watch for a radio or TV ad you like. Write down why you liked the ads.

Discussion Questions

1. How do small businesses sell and promote their businesses? Talk about all the different ways students found in activity 4 above.

2. What makes a good printed ad? Bring in and compare all the ads students liked.

3. What makes a bad ad? Why can some ads make customers not want to use a business? Think about radio and TV ads as well as printed ads.

4. Can an ad be liked by some customers and not liked by others? What can you do about that?

Group Activity

Ask a person who designs ads (a graphic artist) to speak to the class. Ask the person to talk about how ads are designed and printed. Be sure he or she talks about costs of designing and printing, too.

UNIT 8

Keeping Financial Records

Goal: To help you learn how to keep financial records for a farm equipment repair business.

Objective 1: Fill out a customer account form for a customer.

Objective 2: Fill out a daily cash sheet for money received and paid out in one day.

JOSE KEEPS TRACK OF FINANCES

One day Juan goes out to the Johnson farm. The Johnsons are good customers and like to use "On-the-Spot" for repairs. They usually use credit instead of paying cash for Juan and Ann's services.

Today the Johnson's fork lift tractor needs its front and rear axle bearings replaced. This job takes Juan about six hours. The labor costs are $180.00; parts cost $60.00. Juan uses a work order form to add up these costs. He leaves a copy with the Johnsons and takes a copy back to the office.

Jose has a customer account form for each credit customer. He puts the information from the work order on the Johnsons' account form. This lets him keep track of what the Johnsons have charged and how much they have paid.

On the same day, Eddie Arness brings a tractor to the shop for a tuneup. Juan has taught Ann how to do tuneups. So Ann works on it. It takes her two hours, so the labor charge is $60.00. Parts cost $50.00. Sales tax is 5% of the cost of parts, or $2.50. Eddie picks up the tractor later in the day, paying the bill for $112.50 in cash. Jose fills out a sales slip and gives it to him as a receipt.

In the mail are some payments from customers on their accounts. The Orrs send in a check for $100.00. Alice Stanton pays $50.00 on her account.

Jose has to pay on some of the shop's accounts too. He sends a check for $75.00 to Radburn Equipment for parts. He also pays $30.00 to the phone company for their Yellow Pages ad.

At the end of the day Jose puts all the records in order. Then he takes all the money received that day to deposit in their account at Farmtown National Bank.

Keeping Financial Records

One of the most important things a small business owner has to do is to keep good financial records. You have to know how much money is coming in and how much is going out. This is how you know if your business is making or losing money.

There are other reasons to keep good records. You have to report income and expenses to the government to pay taxes. Good records also help you decide if you should expand your business or cut it back.

Cash Sales

Cash sales are those sales that are paid in full at the time. Cash sales include payments in actual cash or by check.

Cash sales are the easiest to handle. When Eddie paid for the garden tractor repairs, he gave Jose $112.50 in cash. Jose gave him a sales slip for a receipt. A copy of the sales slip is on the next page.

Eddie needed a receipt for the records of his own business. Customers should always get receipts to prove they have paid for work that's been done.

Jose rings the cash register for $112.50 and puts the money inside. But he doesn't keep a copy of the sales slip. The cash register prints all payments onto a tape. The tape will show the amount of all cash sales at the end of the day. That's all the record Jose needs of a cash payment.

SALES SLIP

DATE August 18

CUSTOMER Eddie Arness

Description of Sale		Price	
Tractor tuneup			
Parts		$ 50	00
Labor		60	00
Cash ☑	Subtotal	110	00
	Sales Tax	2	50
Charge ☐	TOTAL	$112	50

Some businesses do keep copies of sales slips for other reasons. But many businesses just use the cash register tape to record cash sales.

Credit Sales

The customer account forms help Jose keep track of how much each credit customer owes and has paid.

The Johnsons have had two repairs charged before this one. One was for repairing a sprayer and the other for a brake job on the tractor. They have made regular payments. A copy of their account card is on the next page.

Jose adds the new charge for replacement of axle bearings. He puts in the date, description of sale, and $210.00 under "Amount Charged." He also puts payment amounts under "Payments Received" on the account cards of the Orrs and Alice Stanton. Now his customer account cards are up to date.

CUSTOMER ACCOUNT FORM

Customer: Johnsons

Date	Description of Sale	Amount Charged	Payment Received	Balance Due
June 5	Sprayer Repair	$ 72.00		$ 72.00
June 15			50.00	22.00
July 3	Tractor brake job	130.00		152.00
July 15			152.00	---
August 18	Replace axle bearings	210.00		$210.00

At the end of each month, Jose figures the "Balance Due" on each account. Then he mails a bill to each customer showing how much he or she still owes.

Some small businesses also accept major charge cards like VISA or MasterCard. Many customers like to use these charge cards. The owner doesn't have to keep customer account cards on customers who pay this way.

The credit services pay the business owner the amount the customer owes and then bill the customer. This can save the owner some problems, like customers who pay slowly or not at all. But the credit services cost money too, because the business must pay a fee to the credit service.

Daily Cash Sheet

At the end of each day Jose fills out a daily cash sheet. It has two purposes: it helps him keep track of the money that comes in--

called revenue or income--and the money that goes out--expenses. You can see that it's an important record, because revenue and expenses are important parts of financial records. The form looks like this:

DAILY CASH SHEET			
Cash Receipts		Cash Payments	
Cash Sales	$112.50	Salaries	
Credit Accounts	150.00	Building Expenses	
		Equipment and Furniture	
		Parts	75.00
		Advertising	30.00
		Other	
TOTAL CASH RECEIPTS	$262.50	TOTAL CASH PAYMENTS	$105.00

Jose writes in two kinds of cash receipts. One is cash or checks from the cash register. Today's total is $112.50 from Eddie Arness.

The other is money paid on credit accounts. Today's total is $100.00 from the Orrs and $50.00 from Alice Stanton, or a total of $150. Jose records this separately from cash register receipts. This will help him if he ever needs to go back and check what happened that day.

Jose also records the expenses he paid that day. He lists the $75.00 paid to Radburn Equipment under "Parts." The $30.00 check to the phone company is listed under "Advertising." Jose also records these checks and what they are for in his checkbook.

Finally, Jose figures his totals. "Total Cash Receipts" are $262.50. "Total Cash Payments" are $105.00.

Summary

Financial records help you keep track of your business income and expenses. Now you know about three of the financial record forms you use to do this. They are the sales slip, the customer account form, and the daily cash sheet. These records are periodically summarized and organized into a form that shows how the business is doing, such as a balance sheet and a profit/loss statement. You will learn about profit/loss statements in the next unit. If you do go into business for yourself, get the advice of a bookkeeper or accountant about how to complete a balance sheet.

Learning Activities

Individual Activities

1. List the three reasons for keeping good financial records.

2. Fill in a customer account form using the following information. The Websters had repairs done on a potato harvester. They charged $150 on October 10. They paid $50 on October 25 and another $50 on November 10.

   On November 12 they needed another repair on the harvester. They charged $80. On November 25 they paid $100. On December 10 they paid the rest of their bill.

CUSTOMER ACCOUNT FORM

Customer: _____

Date	Description of Sale	Amount Charged	Payment Received	Balance Due

3. Fill in a daily cash sheet using the following information. On November 25 Jose received $100 on account from the Websters. He also got $80 on account from Andy Johnson. Cash sales were $72.

   Jose also paid Ann that day. She got $240 for her week's pay. He paid $50 on their insurance and $250 for parts. (Note: insurance goes under "Other.")

DAILY CASH SHEET	
Cash Receipts	**Cash Payments**
Cash Sales _____	Salaries _____
Credit Accounts _____	Building Expenses _____
	Equipment and Furniture _____
	Parts _____
	Advertising _____
	Other _____
TOTAL CASH RECEIPTS _____	TOTAL CASH PAYMENTS _____

Discussion Questions

1. Sometimes the "Cash Payments" for one day are larger than the "Cash Receipts." Does this mean the business is in trouble?

2. What can business owners do about customers who pay slowly or not at all?

3. Why are records completed every day? Could they be done once a week instead?

Group Activity

Divide the class into small groups. Each group should decide the type of farm equipment repair service it will run. Try to have the groups pick different types. For example:

Group 1 - Farm equipment repair service only; customers must bring equipment to the shop

Group 2 - Farm equipment repair service only; mechanics will go to the farm to repair equipment

Group 3 - Farm equipment and lawn and garden equipment repair service

Group 4 - Lawn and garden equipment repair service only

Each group should decide exactly what services it offers. For example, Group 1 might decide it will offer free check-ups on farm equipment and special guarantees, plus routine equipment repairs. Then decide how much you will charge for repair services.

Now design a customer account form and a daily cash sheet for your service. Fill in some sample information to show how to use your forms.

When all groups have finished, take turns showing your forms to the other groups. Say why you designed them the way you did. Show how to use them.

UNIT 9

Keeping Your Business Successful

Goal: To help you learn how to keep a farm equipment repair business successful.

Objective 1: Figure out the net profit, profit ratio, and expense ratio for this business.

Objective 2: State one way this business could increase its profits.

Objective 3: State one way this business could change its services to increase sales.

JUAN AND JOSE CHECK THEIR COMPANY'S HEALTH

Juan and Jose's business has been going for almost three years now. They have hired another mechanic, Andre, besides Ann. They have plenty of repair work during the growing season. In the winter they keep pretty busy getting equipment in shape for the next season.

Even so, Jose wonders if the business could make more money. A couple of times he's had trouble paying bills. Last month he and Juan took only $800 each in salary because they had to buy new equipment for their truck.

Jose decides to talk to their accountant, Essie Jones. She has kept all their records of business income and expenses. On the phone he tells her he wants to talk about how the business is doing.

When he arrives at her office, Essie tells him, "I have figured some totals for you. In Year 1, your profit ratio was 19%. In Year 2 it was 17%. Although you made more dollars of profit in Year 2, your expenses increased even faster. I think you should try to get your profits higher."

Jose wonders what he should do. He could raise prices on labor. Or he and Juan could try to find a way to get more work for the business in the winter.

Perhaps they could try to spend less money on expenses. Maybe they could cut back their employees' hours of work in the winter. That would save them some expenses in salaries. But that could make their employees unhappy, too.

Jose decides to have a meeting of everyone in the company. Maybe if he, Juan, Ann, and Andre put their heads together, they can find the best answer.

Keeping Your Business Successful

If a small business is successful for more than two years, it has a good chance to make it. Half of all small businesses go out of business before they've lasted two years. Juan and Jose's business had made it for almost three years. So they can feel pretty good.

But a repair service owner can never sit back and say, "I've made it!" Things are changing all the time or, as business people say, "The market is changing." New kinds of farm equipment may come out, and mechanics must know how to work on them. Farmers have bad years and may put off repairs that aren't too important. Competition may change as other repair shops open or close.

Repair service owners have to keep careful track of changes like these. They also have to know exactly how their business is doing so they can make changes to keep up.

Profit and Loss Statement

A profit and loss statement shows income and expenses over a period of time, usually a year. Remember the daily cash sheets in the last unit? For a service business, a profit and loss statement is just all the daily cash sheets added together for the whole year.

Often a profit and loss statement shows figures for the last two years so that changes can be seen. A two-year profit and loss statement for Juan and Jose's business is shown on the next page.

TWO-YEAR PROFIT/LOSS STATEMENT				
	Year 1		Year 2	
	$	%	$	%
Revenues*	$220,000	100%	250,000	100%
Cost of Goods Sold	100,000		115,000	
Gross Profit	$120,000		135,000	
Expenses				
Salaries	$ 15,000		27,000	
Building Expenses	20,000		20,000	
Office and Other Supplies	1,500		2,000	
Advertising	1,500		1,500	
Gas and Oil	6,000		6,500	
Equipment Repairs	3,000		3,500	
Payment on Loan Debt	12,000		12,000	
Other	20,000		20,000	
	$ 79,000	36%	$ 92,500	37%
Net Profit	41,000	19%	42,500	17%

*Includes labor and cost of parts plus 30% markup on parts.

Essie has filled in the dollar figures for Year 1 and Year 2 on this statement. At the top for each year is the total of "Revenues," or income. Next comes "Cost of Goods Sold." This refers to the amount spent to buy the repair parts and supplies used on the customers' farm equipment. "Gross Profit" equals revenues minus cost of goods sold. Below that is the total of expenses for the year. "Salaries" includes Ann's salary in Year 1 (Ann got a raise during that year) and salaries for both Ann and Andre in Year 2. (Juan and Jose's salaries don't go under "Salaries." Remember that owners' salaries come out of profit after expenses are paid.)

Net profit is the difference between gross profit and total expenses in a year. Net profit is used to pay the owners' salaries, taxes, and

improvements in the business. For example, Juan and Jose bought a second truck when Andre came to work for them. They used part of their net profits to make the down payment.

You can see that the business made more dollars of net profit in Year 1 than in Year 2. But the dollars alone don't tell the whole story.

Profit Ratio and Expense Ratio

The reason the dollars of profit don't tell us enough is that what happened to expenses is important, too. An easy way to see the whole picture is to figure the profit ratio and the expense ratio for each year.

The profit ratio for any year is the net profit divided by the revenues. For Year 1, it's $41,000 divided by $220,000 or 19%. This shows what percent of income the business got to keep after paying expenses. In Year 2, the profit ratio was 17%.

The expense ratio is the expenses divided by the revenues. For Year 1, it's $79,000 divided by $220,000, or 36%. In Year 2, the expense ratio was 37%.

Now it's clear that even though dollars of profit went up in Year 2, the profit ratio went down and the expense ratio went up. To keep their business healthy, Juan and Jose should try to keep their expense ratio from rising.

Increasing Net Profits

To increase net profits, a business must do one of two things:

- reduce expenses; or
- increase revenues.

Reducing expenses can be done in several ways. Jose could look for suppliers of parts and supplies who had lower prices. The business could cut back employee hours or lay off workers. It could sell the new truck. It could buy cheaper ads or stop advertising completely. Or it could even move to a cheaper building. (But sometimes it costs more to do that than it saves!)

The profit and loss statement can help you see what happened. If you look at Year 1 and Year 2 expenses on page 87, you can see that expenses for salaries went up a lot.

In trying to cut expenses, business owners have to be careful. Sometimes cutting services can lose customers for the business. Hiring Andre helped Juan and Jose's business grow. They could get more jobs done, and the farmers were pleased.

Increasing profits can also be done in several ways. The business could raise its prices. It could begin to offer new services, maybe in the winter. It could try to reach more customers by serving a bigger area. It could even start charging customers who use credit.

Again, business owners have to be careful. If Juan and Jose want to raise prices, they have to think again about everything in Unit 6 of this module. If they start charging for credit, customers may start going to other shops that don't.

Juan, Jose, Ann, and Andre have a meeting to talk about what can be done. Andre doesn't want to be cut back or laid off. But Ann says she has some savings. She would like to work part time so she can go to school too.

Juan has another idea. He thinks they should start advertising to fix snow blowers and snowmobiles. That way maybe they can get more work in winter months.

The meeting was a good one. All the workers are happy. An idea for a new service came up. The future for "On-the-Spot Repairs" looks bright!

Summary

Keeping a small business successful isn't easy. The owners have to know how the market for their services is changing. They have to know how their business is doing. And they have to plan the best way to change their services to keep their business going.

Learning Activities

Individual Activities

1. Figure out the net profit, profit ratio, and expense ratio for this business for each year.

TWO-YEAR PROFIT/LOSS STATEMENT				
	Year 1		Year 2	
	$	%	$	%
Revenues	$100,000	100%	$120,000	100%
Cost of Goods Sold	55,000		66,000	
Gross Profit	$ 45,000		$ 54,000	
Expenses	33,000		40,800	
Net Profit				

2. List three ways to increase revenues. List three ways to reduce expenses. Which of these ways would increase net profits?

3. Contact the Small Business Administration to find out how many small businesses fail each year. Get information on how a person closes a business.

Discussion Questions

1. Juan and Jose did not make a lot of money from their business in some months. What other reasons could they have had to want to keep it open?

2. Suppose that Juan and Jose had profits of $35,000 in Year 2. What do you think they might have done with their profits?

3. Suppose that Juan and Jose only had profits of $20,000 in Year 2. What should they do next?

4. Are there any dangers in buying parts and supplies at the cheapest places? What are they?

Group Activity

Using all the information you have gotten about your area during these units, plan a small repair service. The class can work in six teams. The teams should work on the following topics:

- planning the business (Unit 1);
- choosing a location (Unit 2);
- getting money to start (Unit 3);
- being in charge (Unit 4);
- setting prices (Unit 6); and
- advertising and selling (Unit 7).

The class will also have to work together as a whole, since each team needs to know something about what the others are doing.

SUMMARY

This module has been about owning a small repair business. People with training in agricultural mechanics can start small repair businesses. They can repair large farm equipment, small lawn and garden equipment, or both.

To start a small business, you need to do lots of planning. First you have to be sure that owning a small business is right for you. Then you have to decide what services to offer, how to compete, and what legal requirements to meet.

To pick a good location, you have to find out if customers would use your business. Then you have to get money to start. That means showing a banker that your idea is a good one.

Being in charge means dividing the work and hiring good workers. Then you must keep track of jobs to be done and who will do them.

Setting prices means figuring out the lowest price you can charge and also the highest price. To do this you need information on your expenses and on your competition's prices.

Advertising and selling are the ways you get customers. The good things your business does in town are called promotion. These are all important ways to help your business succeed.

You should keep good financial records so you will know how the business is doing. Then you can decide if you can expand your business or if you need to cut it back.

In order to own and operate a succesful farm equipment repair business, you need training in agricultural mechanics, work experience, and the special business management skills we have covered in this module. If you have not had a course in agricultural mechanics, you should take one before deciding to own a farm equipment repair business. You can learn business management skills through business classes, experience, or by using the advice and example of an expert.

You may not make a lot of money by owning a farm equipment repair business. However, you would have the personal satisfaction of being responsible for your business and making your own decisions. Think about how important these things are to you in considering whether you should start your own farm equipment repair business.

QUIZ

1. List three personal qualities an owner of this business might have.

   a. _____

   b. _____

   c. _____

2. Customers for a small farm equipment repair service would probably be:

   _____a. owners of small farms.

   _____b. owners of large farms.

   _____c. dealers' shops.

3. Write one way a small repair business can stand out from its competitors.

   _____

4. List two legal requirements for running this business.

   a. _____

   b. _____

5. List three things to think about in deciding where to locate a repair business.

   a. _____

   b. _____

   c. _____

6. Pick the best location for a small repair service.

_____a. An area with small farms and lots of dealers' shops

_____b. An area where you have talked to farmers and know they need your services

_____c. A shop with plenty of space that costs $10,000 a month to lease

7. You want to start a lawn and garden equipment repair service. You plan to run it out of your home. You will pick up customers' equipment yourself. Of the three other repair services in the area, none of them offers pickup service. You have talked to 25 homeowners in your area. Nineteen said they would like your service. You plan to use your garage to store and work on equipment. You will advertise only in the "Service Center" section of the newspaper. You can keep prices low because you work out of your home.

Write a description of this business for the bank. Include a section on kind of service, location, competition, customers, and plans for success.

8. The Geiger family owns a small repair service. Mr. Geiger has been a mechanic for 15 years. His daughter Joan has just finished high school, studying agricultural mechanics. Mrs. Geiger takes care of the books and the billing. They have lots of work and need to hire a fourth person. They should:

_____a. hire an assistant to Mr. Geiger and have Joan assist her mother.

_____b. hire an assistant bookkeeper.

_____c. hire an experienced mechanic and have Joan assist both that person and her father.

9. You decide to hire a bookkeeper for your business. Which person would you choose?

_____a. Joe, who studied bookkeeping in high school and has not worked at it in 12 years

_____b. Annie, who worked as a bookkeeper for three years, wants a very high salary, and has good references

_____c. Jim, who worked as a bookkeeper for one year, has good references, and is studying business at night

10. Fill out the work order form on the next page with the following information.

Henry starts working on a tractor tuneup at 9 a.m on June 11. He finishes at 1 p.m. The rate for labor is $15 an hour. The parts cost $25. Tax on the parts is 5%.

WORK ORDER

FROM: Henry's Repairs
1100 10th Street
Farmtown

JOB FOR: Cliff Farm
Route 6
Farmtown

DATE: June 10
WORK ORDER NUMBER: 00372
ORDER TAKEN BY: Henry
START WORK ON: June 11
TERMS OF PAYMENT: Cash

Person Doing Work	Description of Work	Parts	Labor	Total Cost
	Tractor tuneup (4 hours estimated)			
WORK STARTED: _____ WORK FINISHED: _____			TOTAL PARTS TOTAL LABOR TAX	
			TOTAL COST	

11. Chuck and Gail work for Max's Repair Service. The business has two trucks. These are the orders for one day.

Tractor repairs, 20 miles west of shop, 4 hours estimated
Tractor repairs, 35 miles south of shop, 4 hours
Combine checkup, 25 miles west of shop, 3 hours
Beet harvester checkup, 2 miles east of shop, 3 hours.

Write a schedule for each worker.

12. You have just opened a repair shop. You have added up all your expenses and the profit you need to make. You have to make at least $30 an hour. One dealer near you charges $34 an hour. Another charges $36. What should you charge?

_____a. $30 an hour

_____ b. $32 an hour

_____c. $35 an hour

13. Your repair business has been open two months. You want to run a weekly ad. Which would be best for you?

_____a. Newspaper--reaches 50,000 people (2,000 are farmers) and costs $15 a week

_____b. Farm journal--reaches 3,000 people (all farmers) and costs $20 a week

14. Fill out a customer account form with the following information. Be sure to show each balance due.

The Runningbear Farm has charged these jobs and made these payments:

April 30	Tractor tuneup	$100
May 15	Payment	50
May 20	Tractor axle replaced	200
June 1	Payment	50
July 1	Payment	100

CUSTOMER ACCOUNT FORM

Customer: _____

Date	Description of Sale	Amount Charged	Payment Received	Balance Due

15. Fill out a daily cash sheet with the following information:

Cash (bills and coins)	$ 27
Checks	33
Payments on accounts	800
Paid for parts	$100
Paid on lease	500
Paid for ad	40

DAILY CASH SHEET

Cash Receipts		Cash Payments	
Cash Sales	_____	Salaries	_____
Credit Accounts	_____	Building Expenses	_____
		Equipment and Furniture	_____
		Parts	_____
		Advertising	_____
		Other	_____
TOTAL CASH RECEIPTS	_____	TOTAL CASH PAYMENTS	_____

16. Suppose your farm equipment repair business brought in $150,000 last year. Cost of goods sold was $75,000, and expenses were $60,000. Figure out the net profit, profit ratio, and expense ratio.

17. How can a repair service increase its net profits?

_____a. Move to a larger shop

_____b. Lower its prices

_____c. Advertise to more people

18. A repair service is having trouble. The shop is in town, two blocks from a dealer. All repairs are done in the shop. The shop only works on big equipment. In winter it has almost no work at all.

List two new services this shop could offer to increase its business.

a. _____

b. _____

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PROJECT PRODUCTS

Entrepreneurship Training Components

Vocational Discipline	Module Number and Title
General	Module 1 - Getting Down to Business: What's It All About?
Agriculture	Module 2 - Farm Equipment Repair
	Module 3 - Tree Service
	Module 4 - Garden Center
	Module 5 - Fertilizer and Pesticide Service
	Module 6 - Dairy Farming
Marketing and Distribution	Module 7 - Apparel Store
	Module 8 - Specialty Food Store
	Module 9 - Travel Agency
	Module 10 - Bicycle Store
	Module 11 - Flower and Plant Store
	Module 12 - Business and Personal Service
	Module 13 - Innkeeping
Health	Module 14 - Nursing Service
	Module 15 - Wheelchair Transportation Service
	Module 16 - Health Spa
Business and Office	Module 17 - Answering Service
	Module 18 - Secretarial Service
	Module 19 - Bookkeeping Service
	Module 20 - Software Design Company
	Module 21 - Word Processing Service
Occupational Home Economics	Module 22 - Restaurant Business
	Module 23 - Day Care Center
	Module 24 - Housecleaning Service
	Module 25 - Sewing Service
	Module 26 - Home Attendant Service
Technical	Module 27 - Guard Service
	Module 28 - Pest Control Service
	Module 29 - Energy Specialist Service
Trades and Industry	Module 30 - Hair Styling Shop
	Module 31 - Auto Repair Shop
	Module 32 - Welding Business
	Module 33 - Construction Electrician Business
	Module 34 - Carpentry Business
	Module 35 - Plumbing Business
	Module 36 - Air Conditioning and Heating Service

Related Resources

Resource Guide of Existing Entrepreneurship Materials

Handbook on Utilization of the Entrepreneurship Training Components